

EUROPEAN PARLIAMENT

Working Documents

1980 - 1981

22 January 1981

DOCUMENT 1-827/80

MOTION FOR A RESOLUTION

tabled by Mr E.P. WOLTJER

pursuant to Rule 25 of the Rules of Procedure

on measures to restore the balance
of the market in the milk sector

PE 70.979

The European Parliament,

- having regard to the objectives of the agricultural policy of the European Community as set out in the Treaty of Rome (in particular Articles 38, 39 and 100 thereof):
 - (a) to achieve a common market in agricultural products
 - (b) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimal utilization of the factors of production in order to maximize incomes in the European Community
 - (c) to ensure a fair standard of living for the agricultural community
 - (d) to stabilize markets
 - (e) to assure the availability of (internal) supplies
 - (f) to ensure that supplies reach consumers at reasonable prices
 - (g) to make a contribution to the more harmonious development of world trade,
- taking into account the need for:
 - 1. protection of the environment and the countryside,
 - 2. appropriate energy savings,
 - 3. a contribution to the world food problem,
 - 4. limits on the budgetary burden of the policy,
- approving the basic principles of the policy, namely:
 - unity of the market,
 - Community preference,
 - financial solidarity,
- noting the Council decision to introduce a supplementary levy on excess milk production in 1981, if production has risen by over 2% in 1980,
- referring to resolutions adopted by Parliament during its consideration of the 1979/80 budget and the 1980 farm price review,
- having regard to the task of the Commission of the European Communities of drawing up a plan on the restructuring of Community resources at the beginning of 1981,

1. Takes the view that with the present policy instruments the various objectives of the policy are being unevenly achieved, and that a large number of distortions have occurred. In the dairy policy these take the form of:
 - a steady increase in surplus production with a consequent increase in the budgetary burdens resulting from the obligation to make unlimited interventions and high refunds,
 - a fall in the incomes of dairy farmers as a result of the 'cautious' prices policy of recent years and the general co-responsibility levy,
 - increasing income disparities by country and region between holdings of different size and between holdings of equal size in this sector,
 - delays, owing to surplus production, in implementing structural measures in this sector,
 - a deterioration in the working conditions on many farms as a result of long working days, weekend work, operating problems in cases of sickness, etc.,
 - increasing problems for young farmers taking over farms,
 - threats to the countryside and the environment, partly as a consequence of the need increasingly to intensify production by means of highly toxic fertilizers etc., and partly as a result of the fact that increasing numbers of farmers are ceasing their activity in less suitable areas because of increasing specialization.
2. Calls on the Commission to present proposals in the very near future on the detailed arrangements for the levy, accepted by the Council, on surplus production.
3. Takes the view that, as a complementary measure, a policy plan must be drawn up with a view to restoring balance on the market within a short period (five years)
4. Considers that the family farm should occupy a central position in this plan, as measures must be taken to place limits on scaling up of production and that the small farm must be helped by regional, social and structural improvement measures.
5. Urges the Commission to give priority, in curbing surplus production, to the following policy objectives:

- maintenance of as many jobs as possible,
 - better wages and a fairer distribution thereof,
 - an acceptable distribution of the economic and budgetary implications thereof for the Member States, taking account of the weaker economic position of certain Member States,
 - improved productivity must continue to be possible on smaller farms,
 - the outlets of the developing countries must remain intact,
 - the adverse effects of the present policy on the environment and the countryside should be curbed;
6. Expresses the desire that the consumer should continue to be protected against price fluctuations by means of a storage policy instead of unlimited intervention and that at the same time quality criteria should be improved;
 7. Considers the attainment of the above objectives possible by means of a production planning policy by farm and by region accompanied by a suitable price, structural and social policy;
 8. Requests the Commission to include the following in the policy plan:

A. Production regulation:

Having regard to surplus production, farms would be allocated supply quotas based on the highest supply figure over the previous three years. These supply quotas would be reduced annually by a certain percentage until market balance had been restored. Smaller farms should be exempted from this measure. The supplementary levy accepted by the Council would be imposed on quantities delivered above the supply quota.

B. Social measures:

About 39% of Community farmers are over 55 years of age, and many of them, especially smaller farmers, are without successors.

By making the arrangements on the cessation of farming more effective, and directing them more to this group of farmers, taking into account the tax measures applicable in the various countries (payment of a premium over a period of five or ten years, according to choice) the social element would be provided, younger farmers would be given a better opportunity of taking over the farm and would benefit from the exemption from the supply quota applicable to 'growth' farms.

C. The quotas released as a result of the cessation of farming are allocated to farms with a development plan which satisfy the criteria established in respect of

- production volume
- production volume/land utilization ratio,
- working time devoted to dairy farming.

Some of the quotas released are redistributed by the Commission among the regions receiving support under the regional policy (Italy and Ireland). The structural policy should be reviewed, starting with the distribution of the quota and farm takeovers by young farmers.

D. Incomes policy:

Losses of income resulting from reduced production are, in the case of family farms, offset by annual price increases. Income trends in other sectors should also be taken into account in fixing prices. The additional advantages accruing to larger farms as a result of price adjustments should be offset by graduated reductions in the - currently linear - co-responsibility levy.

E. Marketing:

The processing industry should be encouraged more vigorously to find its own market for its products instead of delivering them into intervention in the form of butter and skimmed milk powder.

The yield of the co-responsibility levy to be collected by the factories is therefore dependent on the ratio between intervention supply and total milk processed.

9. Request the Commission to take account of the effects of its policy plan with regard to the budget, producers' , consumers' and European Community incomes, regional specialization, the countryside and the environment, and international trade, and to include the results in its policy plan.
10. Requests its President to forward this resolution to the Council and Commission.

EXPLANATORY STATEMENT

- I. The balance of the dairy market was seriously disturbed in the seventies. As a result of unlimited intervention budgetary costs rose sharply and currently account for almost 40% of the Guidance Fund.

Despite the cautious price policy pursued by the Commission and the introduction of a general linear co-responsibility levy, production rises annually by 2% while consumption remains practically stagnant.

This disparity between equilibrium price and intervention price determines for a large part the costs of the policy. The stocks withdrawn from the market are sold outside the Community with the aid of high export refunds, which in turn cause disturbances in international trade.

The volume of stocks is not the determining factor in establishing the existence of surplus production. Terms such as 'butter mountains' and 'molehills' do not give a correct picture of the extent to which the market balance is disturbed, as such stocks are dependent on the refund policy.

- II. Proposals have been put forward from various quarters suggesting ways of solving the above problems. Most of them involve one of the following arrangements:

- price regulation,
 - production regulation,
- (voluntary restraint by means of premium arrangements).

The number of variants and combinations is unlimited. In making a selection among the policy alternatives it is important to know the effects thereof on the various policy objectives. Selection is also dependent on the relative value attached to the policy objectives.

In the Agricultural Economics department of the Agricultural College in Wageningen (Netherlands) a computer model has been developed to calculate the effects of policy proposals on the various policy objectives. Such a model is essential for planning policy changes.

In the annex to this report the effects of the policy proposals set out in this resolution are quantified on the basis of calculations by the above-mentioned computer model. The figures given are intended merely as an example. Many variations are possible and should also be worked out in greater detail and taken into account in the negotiations.

III. Negotiations in the Council on changes in the milk policy have been in a state of deadlock for years. The Council has got no further than minor changes to the amount of the co-responsibility levy and a declaration of principle on the introduction of a supplementary levy on surplus production. It is to be feared that as soon as it comes to discussing the detailed arrangements for the supplementary levy, there will be long delays before results are achieved.

It is however absolutely essential to curb surplus production. Such rationalization would involve sacrifices. Unless all the Member States are willing to accept a proportionate share of such sacrifices, the danger of national measures increasingly replacing the Community policy will get worse.

That the problem cannot be solved by the price mechanism and/or the co-responsibility levy is clear from the results of the last 5 years. Judging from its proposals for a levy on surplus production, this has now also been acknowledged by the Commission. If this levy is imposed on the dairies alone, it will be passed on to the milk price received by the farmer and its effect lost, and there is in fact talk of a variant to the general co-responsibility levy. Only by applying this supplementary levy at farm level will a new policy element, i.e. production regulation, be introduced.

By combining this element with other proposed policy elements (social, structural, regional and marketing policy) specific differences between Member States in respect of policy changes within dairy policy can be taken into account, and this will reduce the need for complicated negotiations. An advantage not to be underestimated!

IV. The opponents of production regulation at farm level often put forward the following arguments:

1. administrative unfeasibility,
2. the farmer would no longer be able to run his farm as he saw fit,
3. production regulation leads to impossible negotiations between Member States.

re 1. Any form of regulation involves administrative difficulties. That none of its opponents advocates the abrogation of the other regulations (e.g. import restrictions on agricultural products), shows how selective this reasoning is. Feasibility is taken fully into account in the resolution with the recommendations that production regulation should be effected via the dairy (delivery quota), and that there should be no reduction for smaller quotas.

The argument that production regulation gives rise to a black market and massive evasion by the dairies is like saying that to forbid theft is to create thieves.

- re 2. The farmer still retains adequate scope for rationalizing his farm, not only by adjusting his costs more to his volume of production rather than the other way round, but also by being able to devote more time to improvements to his working conditions.
- re 3. As stated above, the proposal includes a package of policy changes and additional measures within a single sector.

The proposed regional redistribution opens up the possibility of offering major opportunities to potentially good milk production areas. Finally, the argument that negotiations will be difficult applies to any policy proposal (prices, co-responsibility, etc.).

- V. The economic value of prices, i.e. that they bring about market balance, was abandoned in the decision to regulate them under the present policy. To advocate its reintroduction would signify a 20% fall in prices. Such a step backwards would be a rationalization measure whose effects would be incalculable, hence the proposal to introduce manageable production regulation. This would be in the interests of dairy farmers' employment.

ANNEX

More details of a quota system for milk production are given below. This proposal is also intended to stimulate discussion on the methods to be used for the superlevy.

Formulation of this proposal has been based on the need to reduce budgetary expenditure in this sector. High priority is given to the following policy objectives:

- preservation of as many jobs as possible
- positive environmental effects in both intensively and extensively farmed areas
- improved distribution of income in this sector
- contribution to balanced international trade
- the burden must be fairly evenly distributed amongst the Member States. The weaker economic position of some Member States must be borne in mind.
- the weaker position of small farms must be respected as far as possible
- improved productivity must remain possible, but within the budgetary objectives.

The proposal covers three aspects and the necessary instruments:

a) Restriction of the surplus by:

- a quota system with an 85% penalty on the price if it is exceeded. The quotas should not be negotiable.
- the quotas (1979 or 1980 production) must be reduced by 3% per annum over a 5 year period (1981-1986) except for quotas of less than 60,000 litres.
- the fall in producers' incomes is limited by a real price increase of 1% per annum throughout this period.

b) Redistribution of production quotas:

- Allocation of quotas which fall vacant (inter alia through cessation of farming and switches of production \pm 2% per annum) shall be to farms satisfying the following criteria
 1. the quota already allocated must be less than 135,000 litres of milk per full-time worker, nor must it exceed this after allocation.
 2. the farmer must spend more than 50% of his working hours on dairy farming.

3. production per hectare (grass and fodder crops) must not exceed 12,000 kg.

-- The Commission shall allocate 5% of the total quotas becoming vacant to structurally less-developed areas which are also considered suitable for milk production (particularly Ireland). The remaining distribution shall be by national government on the basis of the criteria given above.

-- Encouragement of cessation of farming by improving the provisions for farmers over 55 years of age. Differences in national taxation systems and the capital held by each person must be taken into account.

c) Distribution of income.

-- The basic principle remains that prices for agricultural products must be adjusted each year such that the income on family farms runs parallel to incomes in other sectors of the economy.

-- A progressive levy should be introduced in place of the present co-responsibility levy on milk supplied to the dairy industry and this should be calculated as follows:

-- 0% for production up to 200,000 litres

2% for production from 200,000 - 300,000 litres

4% for production from 300,000 - 400,000 litres

6% for production exceeding 400,000 litres.

It would appear that the proposed quota system, together with the annual reduction of 3%, would cause considerable levelling off. Any additional increase of the levy would be disastrous.

In this form the policy would link up in the short term with our longer term objectives.

The administrative feasibility of implementing this policy is often used as an argument against the quota system. I think that this objection can be countered by entrusting implementation of a) and c) to the dairy factories.

This quota system is thus aimed at milk supplied to the dairy industry (\approx 92% of total milk production). Farmers who market or process (farm cheese) all or part of their product themselves are not affected, or are affected to a lesser extent by the system. The Commission should also be requested to introduce a recognition policy for dairy factories, together with an upper limit for the selling into intervention of skimmed milk powder and butter.

It is possible to initiate this by relating payment of the coresponsibility levy by dairy factories to the Commission to the amount supplied into intervention by the factory concerned.

The attached table lists calculations for the effects of the various alternatives on the policy objectives and compares these with an unchanged policy. This was calculated using the Community dairy model of general agricultural economy department of the Wageningen Agricultural College.

The calculations for the effects of the policy changes requested in this resolution appear under 5.

As numbers of farmers will fall faster if the take-over arrangements are improved than if the policy is unchanged, it can be assumed that income per farm will increase.

Calculations for Member States of the economic effect (reduction of exports/increase of imports minus reduction of payments for the budgetary costs of dairy policy) of this proposal demonstrate that there would be no changes for Italy and Ireland. Although the UK would pay part of the costs this would be considerably less by comparison with the Netherlands and Germany, in view of this country's relatively large contribution to the costs of the present dairy policy.

| Policy measures | Aspects (purposes) | Administrative feasibility | Reduction in the spread of dairy farmer's incomes | Assistance to balanced inter- national trade | Regional specialization | Environ- ment and country- side; land use | | Market price stability | Summary of changes if policy remains unchanged (in m.Fl.) | | | |
|--|-----------------------|-------------------------------|---|--|----------------------------|---|----------------|---------------------------|---|----------------------|--------|---------------|
| | | | | | | inten- sive | exten- sive | | producers' incomes | consumers incomes | budget | EEC income |
| 1. Unchanged policy | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2. Single price reduction of 21% without stock policy | | 0.0 | 0.9 | 4.1 | 1.1 | 1.4 | -5.0 | -4.8 | -36.0 | 26.7 | -33.6 | 20.7 |
| 3. As 2 with income supplement | | -3.1 | 3.8 | 3.7 | 0.7 | 0.9 | -3.3 | -2.1 | 0.0 | 2.1 | -16.3 | 16.9 |
| 4. Regular 1% price reduction | | 0.0 | 0.4 | 1.3 | 0.6 | 0.7 | -2.5 | -0.3 | -10.7 | 7.6 | - 8.6 | 5.5 |
| 5. Woltjer proposal | | -4.3 | 3.5 | 4.1 | -3.7 | 3.7 | 0.0 | -1.8 | - 2.7 | -6.3 | -26.8 | 17.4 |
| 6. Premium for reduced milk production | | -0.1 | 0.0 | 0.4 | 0.1 | 0.1 | -0.3 | -0.0 | 0.8 | 0.1 | - 0.5 | 1.3 |
| 7. Structural policy with unchanged prices | | -1.0 | -0.1 | -0.3 | 0.0 | -0.2 | 0.2 | 0.0 | 2.8 | 0.1 | 1.7 | 0.8 |
| 8. As 7 with equilibrium price. | | -0.6 | 0.6 | 4.1 | 0.0 | 1.1 | -4.7 | -5.0 | -37.9 | 29.3 | -32.8 | 21.7 |
| 9. Monopoly quota system | | -5.0 | 4.7 | 5.0 | -5.0 | 5.0 | -0.1 | -2.9 | 0.0 | -15.3 | -35.5 | 14.6 |
| 10. Cautious pricing policy | | 0.0 | 0.7 | 2.7 | 1.0 | 1.2 | -4.4 | -1.4 | -23.4 | 15.4 | -22.1 | 12.7 |
| 11. Pricing policy with rising coresponsibility | | 0.0 | 0.7 | 1.8 | 0.9 | 1.1 | -4.0 | -0.6 | -19.6 | 4.3 | -24.0 | 9.1 |
| 12. Production quota for current production | | -3.5 | 1.5 | 1.9 | -1.7 | 1.7 | 0.1 | -0.7 | 0.0 | - 2.3 | -11.3 | 9.0 |
| 13. Commission's 1980 proposal | | -0.9 | 0.5 | 1.9 | 0.1 | 0.7 | -4.0 | -0.7 | - 9.0 | 2.3 | -13.1 | 8.2 |

Computer model by A.J. Oskam.

